

Message Text

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PAGE 01 OECD P 01919 01 OF 03 231246Z

53

ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 SS-15 L-02 H-01 NSC-05 AID-05

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LAB-04 SIL-01 OMB-01 OIC-02 /099 W
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SUBJECT: INVISIBLES COMMITTEE, 112TH SESSION

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(B) DAF/INV/74.64

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(J) STATE 10397

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PAGE 02 OECD P 01919 01 OF 03 231246Z

1. SUMMARY. INVISIBLES COMMITTEE (IC) COMPLETED THIRD EXAMINATION OF UK AND IRISH RESERVATIONS TO CAPITAL CODE, CONDUCTED INITIAL EXAMINATION OF BELGIAN RESERVATIONS TO CAPITAL CODE, HELD PRELIMINARY DISCUSSION ON PLANNING FOR NEXT SPECIAL SESSION ON DIRECT INVESTMENT TENTATIVELY SCHEDULED FOR APR 23-25, 1975, AND SCHEDULED FUTURE REVIEWS OF CAPITAL CODE DEROGATIONS FOR AUSTRIA, GERMANY, ITALY, JAPAN, TURKEY. END SUMMARY.

2. CHANGES IN COUNTRY REGULATIONS: SPANISH EXPERT INDICATED EXTENSIVE CHANGES IN ADMINISTRATIVE PROCEDURES UNDER WAY CONCERNING DIRECT INVESTMENT. HE WILL SUBMIT LIST AND EXPLANATION OF CHANGES AT NEXT SPECIAL SESSION ON DIRECT INVESTMENT.

3. THIRD EXAMINATION OF THE UK RESERVATIONS TO THE CAPITAL CODE: IC CONTINUED ITS REVIEW OF UK RESERVATIONS, CONCENTRATING ON CONCLUSIONS IN REF A. NEW BELGIAN EXPERT QUESTIONED NEED FOR MAINTAINING INVESTMENT CURRENCY MARKET, PARTICULARLY WHEN CURRENCY FLOATING. U.S. EXPERT QUESTIONED LONG-TERM EFFECTIVENESS AND POSSIBLE NEGATIVE OVERALL IMPACT ON ECONOMY OF EXTENSIVE UK EXCHANGE CONTROL SYSTEM. HE AND OTHERS URGED THAT UK BEGIN TO BUILD CONDITIONS WHICH WOULD MAKE POSSIBLE EVENTUAL DISMANTLING MAIN PART OF EXCHANGE CONTROL SYSTEM. BELGIAN EXPERT NOTED THAT BP SITUATION HAD IMPROVED IN 1970-71, BUT THAT UK HAD NOT TAKEN ANY SIGNIFICANT STEPS TO RELAX ITS CONTROLS. UK (PIRIE) RESPONDED THAT HIS COUNTRY HAD BEEN CAUTIOUS ABOUT DISMANTLING CONTROLS AT TIME OF BP SURPLUS AND BEGINNING OF CURRENCY FLOAT BECAUSE OF UNCERTAINTY REGARDING FUTURE DEVELOPMENTS, WHICH SUBSEQUENTLY HAD JUSTIFIED SUCH CAUTION. IC AGREED IT WAS NOT MOST PROPITIOUS MOMENT FOR REMOVING CONTROLS, BUT EXPRESSED HOPE (AT U.S. URGING) THAT UK AUTHORITIES WOULD SEE FIT TO MAKE STATEMENT OF INTENT TO PROGRESSIVELY MOVE TOWARD RELAXATION OF CONTROLS AS CIRCUMSTANCES PERMIT. THIS WOULD BE CONSISTENT WITH BASIC COMMITMENT TO LIBERALIZE IMPLIED BY MEMBERSHIP IN CODE. UK REP AGREED TO SUGGEST THIS TO HIS AUTHORITIES. REFDOC WILL GO TO COUNCIL WITH LIMITED OFFICIAL USE

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PAGE 03 OECD P 01919 01 OF 03 231246Z

REVISED CONCLUSIONS.

4. THROUGHOUT DISCUSSION, NORWEGIAN REP (MOLAND) PERSISTED IN TRYING TO WATER DOWN IC CONCLUSIONS PARAS 34 AND 35 OF UK REPORT REGARDING QUESTIONS OF PRINCIPLE, IN PARTICULAR WHETHER IC SHOULD "QUESTION THE DESIRABILITY OF USING EXCHANGE CONTROL AS A MEANS OF MANDATORILY DETERMINING SOURCE OF FINANCE OF RESIDENTS' INVEST-

MENT ABROAD" (PARA 34) AND WHETHER IC SHOULD EMPHASIZE THAT "OTHER SOLUTIONS SHOULD BE EXPLORED BEFORE EXCHANGE CONTROL IS USED AS AN INSTRUMENT OF MONETARY OR ECONOMIC POLICY" (PARA 35). U.S. POINTED OUT THAT LATTER PRINCIPLE WAS FUNDAMENTAL TO CONCEPT OF CODE OF LIBERALIZATION AND EXPRESSED SURPRISE THAT NORWAY, AS SIGNATORY OF CODE, SHOULD CHALLENGE THIS BASIC PRECEPT. AUSTRIAN EXPERT POINTED OUT CODE ASSUMPTION THAT IT IS ALWAYS PREFERABLE TO MAKE FULLEST POSSIBLE USE OF OTHER MEASURES BEFORE RESORTING TO RESTRICTIONS ON TRANSACTIONS OF TYPE COVERED BY CODE.

5. THIRD EXAMINATION OF IRISH RESERVATIONS IN THE CAPI-

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PAGE 01 OECD P 01919 02 OF 03 231236Z

53

ACTION EUR-12

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TAL MOVEMENTS CODE: IC ACCEPTED FINAL DRAFT OF ITS
THIRD EXAMINATION OF IRISH RESERVATIONS RECORDED IN
ANNEX B OF THE CODE OF LIBERALIZATION OF CAPITAL MOVE-
MENTS (REF B) WITH ONLY MINOR CHANGES PROPOSED TO INSURE
THAT LANGUAGE PARA 19 WILL PARALLEL LANGUAGE ON SAME
QUESTION CONTAINED PARAS 33-35 IN REF (A) ON UK RESERVA-
TIONS. SCANDINAVIANS AGAIN ARGUED AGAINST ANY INDICA-
TION IN DOCUMENT THAT IC AS SUCH QUESTIONED DESIRABILITY
OF USING EXCHANGE CONTROLS AS AN INSTRUMENT OF MONETARY
OR ECONOMIC POLICY, PREFERRING TO HAVE COMMENT DELETED
BUT FINALLY AGREEING WITH U.S. AND OTHER EXPERTS THAT
QUESTION WAS AT LEAST STILL OPEN.
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PAGE 02 OECD P 01919 02 OF 03 231236Z

6. EXAMINATION OF BELGIAN RESERVATIONS IN CAPITAL MOVE-
MENTS CODE: IC EXAMINED INITIAL INFORMATION PAPER DIS-
TRIBUTED BY SECRETARIAT ON FACTUAL AND HISTORICAL SITUA-
TION BELGIAN RESERVATIONS TO CAPITAL MOVEMENTS CODE
(REF C). DISCUSSION CENTERED AROUND EXTENT TO WHICH
TREATMENT OF FOREIGN AND DOMESTIC SECURITIES WAS
SUFFICIENTLY DIFFERENT TO REQUIRE CONTINUATION OF
RESERVATION. BELGIAN EXPERT ACKNOWLEDGED THAT ONLY
POSSIBILITY FOR DIFFERENCE IN TREATMENT WOULD BE IN
MINISTRY OF FINANCE, AND THAT MINFIN HAD IN FACT
ALWAYS GRANTED PERMISSION (EXCEPT IN ONE INSTANCE SOME
YEARS AGO). MINFIN WOULD NOT WITHHOLD PERMISSION FOR
BALANCE OF PAYMENTS REASONS SINCE SUCH SECURITIES WOULD
BE PURCHASED ON FREE MARKET AND THUS HAVE NO IMPACT ON
EXCHANGE RESERVES OR EXCHANGE RATES. ONLY RATIONALE FOR
INTERVENTION BY MINFIN WOULD BE TO ASSURE THAT ADEQUATE
DOMESTIC SAVINGS ARE AVAILABLE FOR DOMESTIC BORROWERS.
SECRETARIAT RAISED QUESTION WHETHER REASON FOR SMALL
NUMBER OF FOREIGN ISSUES ON BELGIAN MARKET WAS BECAUSE
ISSUERS FELT THEY WOULD NOT BE ABLE TO ISSUE AND THERE-
FORE DID NOT TRY. BELGIAN EXPERT FELT PRIMARY REASON
FOR LACK OF SIGNIFICANT NUMBER OF FOREIGN ISSUES IN
BELGIAN FRANCS WAS FISCAL, SINCE SECURITIES ISSUED IN
BELGIUM WOULD BE SUBJECT TO BELGIAN WITHHOLDING TAX FOR
BELGIAN RESIDENTS, WHEREAS THERE ALREADY EXISTED POSSI-
BILITIES FOR DOMESTIC RESIDENTS TO PURCHASE BELGIAN
FRANC ISSUES ABROAD. U.S. EXPERT QUESTIONED WHETHER OR
NOT INTRODUCTION OF FOREIGN SECURITIES WOULD BE CON-
SIDERED ONLY FOR LISTED FOREIGN SECURITIES (AS INDICATED
IN PARA 8 REF C). BELGIAN EXPERT AGREED TO INVESTI-
GATE WHETHER OR NOT WORD "ONLY" COULD BE DROPPED, NOTING
THAT IT MIGHT BE POSSIBLE FOR UNLISTED FOREIGN SECURI-
TIES TO BE LISTED ON A DOMESTIC BELGIAN EXCHANGE UNDER

CERTAIN CIRCUMSTANCES.

7. GIVEN THE FACT THAT BELGIAN MINFIN HAD NOT FOR SOME TIME TURNED DOWN REQUESTS BY FOREIGNERS FOR INTRODUCTION OF FOREIGN SECURITIES IN BELGIAN MARKET, U.S. EXPERT WONDERED WHETHER OR NOT SOME SLIGHT CHANGE MIGHT BE MADE IN IMPLEMENTATION PROCEDURES OF BELGIAN LAW ON THIS LIMITED OFFICIAL USE

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PAGE 03 OECD P 01919 02 OF 03 231236Z

SUBJECT TO PERMIT WITHDRAWAL OR SUBSTANTIAL MODIFICATION OF BELGIAN RESERVATIONS ON LIST A3B2 AND LIST B3BL. DEROGATION COULD THEN BE LODGED AT ANY TIME IN FUTURE WHEN BELGIAN AUTHORITIES FELT IT NECESSARY TO RESTRAIN FOREIGN BORROWING IN BELGIAN CAPITAL MARKETS. BELGIAN EXPERT REACTED POSITIVELY TO THIS SUGGESTION AND INDICATED HE WOULD EXAMINE QUESTION WITH HIS AUTHORITIES.

8. NEW BELGIAN MEMBER: IN HIS FIRST SESSION WITH IC, NEW BELGIAN EXPERT (JAMAR) EXHIBITED GOOD GRASP OF WORK OF COMMITTEE AND CONTINUATION OF LIBERAL ATTITUDE TOWARD CAPITAL MOVEMENTS WHICH HAD BEEN TAKEN IN THE PAST BY HIS PREDECESSOR (ASPESLAGH - WHO HAD BEEN ON IC SINCE ITS INCEPTION). REPLACEMENT OF ASPESLAGH BY JAMAR SEEMS TO BE FORTUNATE ONE, SINCE RECENT APPOINTMENTS BY SEVERAL OTHER COUNTRIES HAVE LED TO SOME SHIFT AWAY FROM LIBERAL ATTITUDE IN IC. NEW LIBERAL COALITION IN IC SHAPES UP WITH U.S., BELGIUM, AUSTRIA, SWITZERLAND AND GERMANY ON LIBERAL END, ITALY, SPAIN AND POSSIBLY JAPAN IN THE CENTER, AND UK AND SCANDINAVIAN COUNTRIES FAIRLY STRONGLY ORIENTED TOWARD USE OF CONTROLS. DURING BELGIAN REVIEW, NORWEGIAN EXPERT MADE STRONG INTERVENTION TO EMPHASIZE THAT SMALL COUNTRIES FREQUENTLY FOUND IT NECESSARY TO USE EXCHANGE CONTROLS IN ORDER TO PROTECT THEIR DOMESTIC MARKETS FROM EXCESS FOREIGN BORROWING OR LENDING. THEREFORE, HE AND OTHER SCANDINAVIAN EXPERTS DID NOT LOOK WITH DISFAVOR ON PRECAUTIONARY RESERVATIONS, AND DID NOT FEEL IT APPROPRIATE FOR IC TO PUT PRESSURE ON BELGIAN EXPERT TO LOOK INTO WAYS TO REMOVE OR MODIFY BELGIAN RESERVATIONS. U.S. EXPERT RESPONDED THAT GOAL OF CODE IS MOVEMENT AWAY

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PAGE 01 OECD P 01919 03 OF 03 231239Z

53

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LIMITED OFFICIAL USE SECTION 03 OF 03 OECD PARIS 01919

FROM CONTROLS AND REMOVAL OF RESERVATIONS. BELGIAN
EXPERT, TOGETHER WITH OTHER LIBERAL-MINDED MEMBERS OF
COMMITTEE, SECONDED THIS.

9. SPECIAL SESSION ON DIRECT INVESTMENT: SECRETARIAT
SUGGESTED NEXT SESSION OF IC WITH DIRECT INVESTMENT
EXPERTS CONTINUE TO EXAMINE QUESTIONS CONSIDERED AT
LAST SESSION, WITH AN ADDITIONAL DISCUSSION ON QUESTION
OF DISCRIMINATION ON SOURCE OF FUNDS FROM WITHIN AND
OUTSIDE OF OECD. SEVERAL EXPERTS RAISED QUESTION OF
RELATIONSHIP BETWEEN THIS WORK AND NEW INVESTMENT
COMMITTEE. U.S. SUGGESTED DISCUSSION THIS QUESTION BE
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PAGE 02 OECD P 01919 03 OF 03 231239Z

POSTPONED UNTIL TERMS OF REFERENCE OF NEW INVESTMENT
COMMITTEE ARE CLEARER (REF J). SECRETARIAT SUGGESTED

NEW COMMITTEE WOULD PROBABLY DEPEND HEAVILY ON OTHER

COMMITTEES WITHIN THE ORGANIZATION FOR SUBSTANTIVE WORK IN THEIR AREAS. ON CODE QUESTIONS IT WOULD PROBABLY CALL ON IC FROM TIME TO TIME. SEVERAL MEMBERS SUGGESTED THAT IC BE BROUGHT UP TO DATE ON ANY WORK ON INVESTMENT QUESTIONS IN NEW ENERGY COMMITTEE, AND SECRETARIAT INDICATED IT WOULD MAKE REPORT AT NEXT SESSION. U.S. EXPERT ASKED THAT QUESTIONNAIRE AND OTHER DOCUMENTATION FOR NEXT SPECIAL SESSION WITH DIRECT INVESTMENT EXPERTS BE PREPARED WELL IN ADVANCE FOR DISTRIBUTION TO NATIONAL CAPITALS. SECRETARIAT PROPOSED TO USE BASICALLY SAME QUESTIONNAIRE AS LAST TIME (REF G), ADDING PERHAPS EXPLANATORY MATERIAL ON QUESTION OF DISCRIMINATION IN OECD COUNTRIES CONCERNING RECEIPT OF FUNDS FROM NON-OECD COUNTRIES AS OPPOSED TO OECD COUNTRIES. IC TENTATIVELY SET MEETING WITH EXPERTS FOR ONE AND ONE-HALF DAYS DURING PERIOD 22-24 APRIL 1975.

10. ACTIVITIES OF THE COMMITTEE: IC DECIDED AS GENERAL RULE TO SCHEDULE COUNTRY EXAMINATIONS OF RESERVATIONS AND DEROGATIONS TO FOLLOW AS CLOSELY AS POSSIBLE EDRC MEETINGS ON SAME COUNTRIES. THIS WOULD PERMIT EFFICIENCIES IN PREPARATION OF BACKGROUND MATERIAL ON ECONOMIC AND OTHER CONDITIONS IN COUNTRY TO BE EXAMINED. IC TENTATIVELY SCHEDULED AUSTRIAN REVIEW IN MARCH, ITALIAN REVIEW IN APRIL ON THE BASIS OF LAST EDRC, JAPANESE AND TURKISH REVIEWS AFTER THEIR EDRC'S IN MAY, GERMAN REVIEW AFTER ITS NEXT EDRC (DATE PRESENTLY UNCERTAIN). IC GENERALLY FELT IT SHOULD NOT DO FURTHER WORK ON QUESTION OF RIGHT OF ESTABLISHMENT UNTIL WORK SCHEDULE AND PROGRAM OF NEW INVESTMENT COMMITTEE IS BETTER KNOWN, ALTHOUGH BELGIAN EXPERT PROPOSED THAT IC GIVE FURTHER CONSIDERATION TO LEGAL PAPER PREPARED EARLIER BY THE SECRETARIAT CONCERNING THE CODE-RELATED QUESTIONS OF RIGHT OF ESTABLISHMENT (REF H). MATTER WAS POSTPONED FOR FURTHER DISCUSSION AFTER THE APRIL SESSION WITH DIRECT INVESTMENT EXPERTS.

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PAGE 03 OECD P 01919 03 OF 03 231239Z

11. NEXT MEETING OF IC SCHEDULED FOR FEB 26-27, 1975 DURING WHICH AUSTRIAN, BELGIAN AND ICELAND RESERVATIONS WILL BE CONSIDERED AND IC WILL REVIEW DOCUMENTATION FOR DIRECT INVESTMENT MEETING IN APRIL. LATTER MEETING SCHEDULED FOR APR 22-24, 1975 DURING WHICH 1-1/2 DAYS WILL BE DEVOTED TO SPECIAL SESSION WITH DIRECT INVESTMENT EXPERTS.
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